OFFICE OF THE TREASURER
P.O. Box 942809
Sacramento, CA 94209-0001
(800) 900-3873
www.treasurer.ca.gov

The Treasury Note

A monthly newsletter of California municipal finance
May 1, 2002

UCLA Anderson Forecast

The UCLA Anderson School recently issued its quarterly economic forecast for California and the nation. According to the forecast, the country appears already to be heading into a sluggish recovery slightly ahead of California, which is predicted to show early signs of recovery in the middle of 2002.

The UCLA economists stated that the current national recession is unique because it is the first business-driven recession the country has experienced since 1950. Ed Leamer, the Director of the Anderson Forecast, stated the collapse of business investment late in 2000 caused the recession of 2001. During a consumer-driven economic cycle, a recession begins with a collapse in consumer spending, followed by a recovery fueled by sharp increases in consumer spending. The current recession is different because consumers continued to spend as if there were no recession while businesses sharply cut their spending. Since consumer spending has no valley out of which to climb, the economy must instead rely on an upturn in business spending to stimulate the recovery. The economists predict it is unlikely that business spending will be strong enough in the next few years to stimulate anything better than a sluggish recovery, as business spending cycles last a decade or more. The last business cycle reached its peak in 2000. The forecast also concludes that internet commerce cuts into business profit margins by creating phenomenal competition. Although the competition is good for the consumer, it results in price reductions to the point of severely impacting business investment returns.

California had a slower rate of payroll employment loss during the recent slowdown than the nation. However, personal income fell further than the rest of the nation during the last three quarters of 2001, largely due to concentration of wage and salary losses in high-paying jobs. Tom Liesner, Senior Economist for the UCLA Anderson Forecast, predicts that recovery for California may lag the nation by several quarters due to our dependence on technology goods. The forecast does predict a turning point on the horizon as basic technology industry growth resumes by mid-year. A modest increase in personal income of 0.6 percent for California is anticipated in 2002, followed by a much sharper increase by 5.7 percent during 2003. Non-farm employment also is projected to increase 0.7 percent in 2002 and 2.2 percent in 2003. The economists predict that by 2003, the California aerospace industry actually will be adding jobs in response to increased defense spending and continued concerns about security. California's unemployment rate of 6.3 percent in 2002 will remain higher than the nation, and is predicted to hold steady at 6.3 percent in 2003. Taxable sales, which were down 0.4 percent in 2001, are expected to grow by 3.3 percent in 2002, and sharply increase to 5.7 percent in 2003.

Although there has been some debate among economists about whether the national downturn should be termed a recession, it is clear that California significantly suffered from the technology crash in 2000 and 2001. The UCLA economists predict that the forthcoming national recovery will help boost sales by California high-tech firms by the middle of the year. According to Tom Liesner, any California job losses in 2002 within the manufacturing, transportation, business services, and entertainment sectors will be more than offset by substantial gains in construction, trade, and diversified services. A slow, steady recovery for California's economy at a rate similar to the 2-3 percent growth predicted for the nation should begin by mid 2002, just slightly behind the start of the national recovery.

**For Information & Assistance
call
Investor Relations
at
(800) 900-3873**

Recent Bond Sales

General Obligation Bond Refinancing Reduces Debt Service Payments by $1 Billion

The State sold general obligation refunding bonds on March 13, 2002, closing the transaction on April 2. As a result of this sale, the State reduced the debt service payments in the current fiscal year and fiscal year 2002-03 by $1.065 billion, and accelerated a transition to level debt service payments.

The sale accomplished Phase 1 of the Targeted Restructuring component of the State's Strategic Debt Management Plan. Selected bonds previously scheduled to be repaid in fiscal year 2001-02 and fiscal year 2002-03 were refunded. The sale reduced the State's debt service payments by $223 million in the current fiscal year, and $842 million in fiscal year 2002-03. The next phase of refinancing will occur in 2003-04.

The total near-term savings attributable to the Plan are projected to reach $2.1 billion, once fully implemented in fiscal year 2003-04. Other elements of the Plan include shifting new general obligation bond issues to level annual debt service, deferral of principal payments on selected bond issues, and issuance of variable rate debt.

The refunding bonds were sold in a competitive sale, with Salomon Smith Barney, Inc. as the winning bidder at a true interest cost of 5.1761 percent. Other bidders included Morgan Stanley and Merrill Lynch & Co. The final total par amount of the bonds was $1.105 billion.

General Obligation Bonds - New Issues

The State of California sold $800 million in new general obligation bonds on April 17, 2002. The bond proceeds will fund various projects throughout California, such as new construction, and modernization of K-12 schools and higher education facilities; the preservation, acquisition, construction, and improvement of railways and other transportation facilities; retrofitting of public buildings for earthquake safety; water quality, supply, and flood control improvements; the protection, preservation, and repair of state and neighborhood parks and wildlife habitats; and seismic retrofitting of highways and bridges.

The three major rating agencies maintained their ratings of California general obligation debt, with Fitch Ratings at AA, Moody's Investors Service at A1, and Standard & Poor's at A+.

The bonds were sold in a competitive sale. Lehman Brothers was the winning bidder with a true interest cost of 5.223 percent. Other bidders included UBS PaineWebber Inc. and Merrill Lynch & Co.

Redemptions & Defeasances

This listing reflects redemptions and defeasances officially announced as of May 1, 2002.

State of California Department of Water Resources, Central Valley Project Water System Revenue Bonds, Series K, Dated Date: May 1, 1992 (Partial Redemption). $1,715,000 of the bonds due December 1, 2004, $1,825,000 of the bonds due December 1, 2005, $1,940,000 of the bonds due December 1, 2006; $2,070,000 of the bonds due December 1, 2007; $2,205,000 of the bonds due December 1, 2008; $2,345,000 of the bonds due December 1, 2009; $2,500,000 of the bonds due December 1, 2010; $2,665,000 of the bonds due December 1, 2011; $2,840,000 of the bonds due December 1, 2012; $35,600,000 of the bonds due December 1, 2021; and $30,635,000 of the bonds due December 1, 2026, will be redeemed on June 1, 2002.

Questions regarding redemptions or registration information can be directed to Investor Relations.

Bond Sales Calendar [1, 2]

If you are interested in purchasing any of these bonds, please contact your broker two weeks before the sale date. For updated information, check our website (www.treasurer.ca.gov) or call Investor Relations.

PROPOSED BOND SALE	AMOUNT	SALE DATE
Department of Water Resources, Central Valley Project, Refunding Bonds	$160 million	Market-watch
California Infrastructure and Economic Development Bank, Clean Water State Revolving Fund	$300 million	Spring / Summer 2002
Veterans General Obligation Bonds	To Be Determined	Fall 2002
Department of Water Resources Power Revenue Bonds	To Be Determined	To Be Determined

[1] Subject to change

[2] Economic refundings may be added